

NATIONAL CREDIT UNION ADMINISTRATION

NCUA News

Board actions November 18, 2004

NCUA decreases budget, returns \$9 million to federal credit unions and lowers overhead transfer rate

The NCUA Board adopted the agency's 2005 budget with a 1.29 percent decrease from the 2004 approved budget. The Board also voted to refund \$9 million to federal credit unions from excess cash reserves and reduce the overhead transfer rate to 57 percent.

"This budget clearly demonstrates our strong commitment to the wise use of agency resources. This is a budget that reflects funds placed with the NCUA are prudently utilized by an agency focusing on its foremost mission of safety and soundness for America's credit unions," Chairman JoAnn Johnson said.

The NCUA Board also approved a departmental reorganization for an initiative on small credit unions.

"Our 2005 budget sends a strong message: NCUA recognizes the importance of small credit unions to their members, their communities and the entire credit union community," affirmed Board Member Debbie Matz.

2005 budget reduction

The Board approved the final 2005 NCUA budget of \$147,996,144, representing a nearly \$2 million decrease from its 2004 budget of \$149.9 million. The NCUA budget is based on historical, actual spending. Each office uses "zero-based" budget preparation, beginning with zero and justifying each line item in its annual budget request, based on

strategic goals and the safety and soundness program.

Primary expenditures and material changes in the 2005 budget include:

- \$2.7 million increase for an average 4 percent pay adjustment;
- \$1.3 million expenditure for capital acquisitions primarily related to network, server and security;
- \$2.2 million decrease in administrative expenses;
- \$1.9 million decrease as new employees replace higher pay-grade retiring employees;
- \$673,000 decrease in travel; and
- \$515,000 decrease in rent, communications and utilities.

At the budget briefing and public forum held October 12, 2004, NCUA discussed the operating fee, overhead transfer rate and decreasing the number of full time staff as the number of institutions declines. Since 2000, full time staff at NCUA has declined by 88 positions, to 961 from 1,049. The 2005 budget includes a reduction of 2 full-time positions.

Operating fee refund

The NCUA Operating Fund has \$9 million in excess cash that will be distributed as a refund to federal credit unions in mid-December. Due to lower than budgeted expenses, higher asset

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FACT Act compliance

NCUA joined as six regulators issued a letter to the American Bankers Association in late November addressing compliance date requirements associated with the Fair and Accurate Credit Transactions Act of 2003 (FACT Act). The letter states the agencies have begun work on guidance or rules to implement many FACT Act provisions and applicable compliance cannot be determined until final guidance and rules are adopted.

However, implementation became effective December 1, 2004, for provisions within the FACT Act that do not depend on agency rulemaking. The letter notes that the Agencies will take into account the good faith efforts to comply with these provisions and the difficulties associated with developing compliance procedures, modifying systems and training staff to implement new FACT Act requirements when considering whether to bring enforcement actions under the FACT Act.

Find the November 24th letter, GC 04-1140, on the NCUA website at http://www.ncua.gov/RegulationsOpinionsLaws/opinion_letters/2004Letters.htm.

News briefs

2005 appropriations — The 2005 Consolidated Appropriations Act includes \$1 million for the Community Development Revolving Loan Fund (\$800,000 for technical assistance grants (TAGs) and \$200,000 for loans) as well as \$1.5 billion borrowing authority for the NCUA's Central Liquidity Facility. TAG funds can be expended through Sept. 30, 2006.

NCUSIF equity — The National Credit Union Share Insurance Fund (NCUSIF) equity level was 1.28 percent at October 31 based on June 30, 2004, insured shares of \$497.0 billion.

Credit union failures — Through October, 18 credit unions failed in 2004, five merged with assistance and 13 were involuntary liquidations. Ten of the involuntary liquidations became purchase and assumptions. NCUSIF losses totaled \$8.4 million.

Insurance reserves — NCUSIF reserves for potential losses were increased by \$3 million in October due to anticipated losses. This amount was expensed to increase specific case reserves.

Chairman Johnson organizes CDCU working group

Focus is on "unique examinations and understanding challenges"

Recognizing the uniqueness of America's community development credit unions and the challenges for fledgling low-income institutions, in November Chairman JoAnn Johnson organized a working group comprised of NCUA staff and five community development credit union leaders to discuss operational and examination issues.

During a recent roundtable discussion hosted by the National Federation of Community Development Credit Unions (NFCDCU) in New York City, Chairman Johnson heard concerns expressed regarding NCUA's examination approach for community development credit unions and challenges within the process.

"I appreciate the concerns expressed to me regarding NCUA's approach to examinations for community development credit unions," Chairman Johnson said. "The input I received is valued and we will be addressing their concerns."

As a direct result, the Chairman designated officials within the NCUA Office of Examination and Insurance and the following NFCDCU governmental affairs committee members who will serve on the working group:

- Melissa Marquez, with \$6.6 million Genesee Co-Op Federal Credit Union of New York;
- Gustavia Cole, with \$758,790 St. John Dallas Federal Credit Union of Texas;
- Suzette Cowell, with \$2.96 million Toledo Urban Federal Credit Union of Ohio;
- Rita Haynes, with \$8.9 million Faith Community United Credit Union of Ohio; and
- Helen Godfrey, with \$63.9 million Shreveport Federal Credit Union of Louisiana.

"The goal of this group will be to develop a 'white paper' which will be utilized by NCUA examination teams. We need to take a fresh look at the challenges of community development institutions. In essence, we plan to create a more effective, not excessive examination process," said Chairman Johnson.

The working group will conduct teleconference meetings and is expected to file a report in early 2005 to serve as additional guidance for examining community development credit unions.

NATIONAL CREDIT UNION ADMINISTRATION NCUA News

NCUA News is published by the National Credit Union Administration, the federal agency which supervises and insures credit unions.

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Deborah Matz, Board Member

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New York City — Chairman Johnson discusses examination and operational issues affecting community development credit unions at the roundtable discussion organized by the National Federation of Community Development Credit Unions.

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Major components of the 2005 budget include —

Category	2004 Budget	2005 Budget	\$ Change	% Change
Employee Pay	\$ 88,519,420	\$ 89,368,676	\$ 849,256	0.96
Employee Benefits	22,631,933	23,093,685	461,752	2.04
Travel	13,492,175	12,818,897	(673,278)	-4.99
Rent, communications & utilities	4,445,363	3,930,100	(515,263)	-11.59
Administrative	12,655,451	10,498,368	(2,157,083)	-17.04
Contracted Services	8,183,250	8,286,418	103,168	1.26
Total	\$149,927,592	\$147,996,144	(\$1,931,448)	-1.29%
Subtotal payroll	111,151,353	112,462,361	1,311,008	1.18%
Subtotal non-payroll	38,776,239	35,533,783	(3,242,456)	-8.36%

growth and completion of the realignment, the refund represents 15 percent of federal credit unions 2004 operating fees. The average refund totals \$1,600. Federal credit unions will debit cash and credit expenses when recording the refund accounting entry.

The Board made the decision to return the excess cash rather than skew the rate scale adjustment with a significant decrease in 2005 followed by a significant increase in 2006. The operating fund is financed by an operating fee assessment adjusted annually based on year-end federal credit union assets. Asset dividing points on the operating fee scale were adjusted 6.25 percent to reflect estimated 2004 asset growth.

The Board also decreased the operating fee scale for federal credit unions by 1.23 percent to meet 2005 operating fee requirements.

Overhead transfer rate lowered

The NCUA Board lowered the overhead transfer rate from 59.8 to 57.0 percent for 2005 based on the calculation method adopted in 2003 which factors in the following:

- NCUA's examiner time survey;
- The value of insurance-related work performed by state supervisory authorities;
- Cost of NCUA resources and programs with different allocation factors

from the examination and supervision program; and

- Distribution of insured shares between federal credit unions and federally insured state-chartered credit unions.

The overhead transfer rate declined primarily because of the decline in the level of insurance-related work reported by examiners for the current survey period. The most recent Examiner Time Survey — from June 2003 to June 2004 — indicated examiners spent an average 69.5 percent of their time on insurance-related procedures.

Offices renamed

To enhance NCUA's small credit union program, the Office of Credit Union Development (OCUD) will be revamped and its name changed to the Office of Small Credit Union Initiatives (OSCUI). The staff level will be increased by three new positions — a supervisor and two trainer/analysts — and the 15 economic development specialists currently managed by the regional offices will report to OSCUI.

The Office of Strategic Program Support and Planning (OSPSP) is changing its name to the Office of Capital Markets and Planning (OCMP) to more accurately reflect its purpose and functions. A new Division of Capital Markets will be located in OCMP in order to organize existing investment staff to achieve more effective operations.

Properly dispose of consumer information

The NCUA Board amended Parts 717 and 748 of the regulations to ensure the proper disposal of consumer information derived from consumer reports in compliance with the Fair and Accurate Credit Transactions (FACT) Act.

The final rule amends Part 717, the fair credit reporting rule, and Part 748, the security program rule and NCUA's "Guidelines for Safeguarding Member Information." The rule requires federal credit unions to develop, implement and maintain appropriate measures to properly dispose of consumer information derived from consumer reports.

Federal credit unions must comply with the new guidelines by July 1, 2005.

Lending regulation proposal issued

The NCUA Board issued a proposed amendment to §701.21, NCUA's lending regulation, to incorporate recent Office of General Counsel interpretations regarding loan maturities and loan guarantees.

Specifically, the proposal clarifies the following:

1. Conditions when the lending rule applies to loans secured by mobile homes, recreational vehicles, house trailers and boats;
2. Loans secured by manufactured homes may be considered residential real estate loans; and
3. Loans with a partial government guarantee, insurance or advance commitment to purchase a portion of a loan fall within the rule.

Board votes are unanimous unless indicated.



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Who and What: Chairman JoAnn Johnson will address the CUNA Mutual Life Insurance Company.

When: Wednesday, Dec. 29, 2004
Where: CUNA Mutual Life Insurance Company, Waverly, Iowa.
Why: Chairman Johnson will provide an update on NCUA regulatory issues.
Contact: Linda Queen at 703 518-6309 or lqueen@ncua.gov.

Who and What: Chairman Johnson will address the NAFCU CEO's Conference.
When: Friday, Jan. 28, 2005
Where: Disney's Contemporary Resort, Lake Buena Vista, Fla.
Why: Chairman Johnson will discuss the 2005 NCUA regulatory agenda.

Contact: Linda Queen at 703-518-6309 or lqueen@ncua.gov.

Who and What: Board Member Debbie Matz will address the American Association of Credit Union Leagues' Annual Meeting.

When: Friday, Jan. 28, 2005
Where: JW Marriott Desert Springs Resort & Spa, Palm Springs, Calif.
Why: Board Member Matz will discuss issues facing the credit union community in 2005.
Contact: Patty Jenkins at 703-518-6318 or pjenkins@ncua.gov.



PALS workshop reaching and keeping new members

NCUA Board Member Debbie Matz organized a Partnering and Leadership Successes (PALS) workshop October 27 in Hawaii to share "New Ideas to Reach New Members" - helping credit unions rebuild flat membership growth and grow stronger in the future.

"This unique workshop offered shining examples of successful initiatives to serve new members from all walks of life," Matz related. "Our eight panelists came from small, large and mid-size credit unions serving diverse fields of membership. They clearly demonstrated how credit unions of all sizes can offer innovative services that will attract new members and help those members build wealth."

Getting new members in your door

The first panel focused on "Ideas to Get New Members in Your Door." **Ka'u Federal Credit Union**, with 2,200 members in the underserved community around Na'alehu, Hawaii, reaches new members in remote locations by establishing branches inside local businesses.

"We don't pay rent in any of our branches," explained Manager Bernard Balsis. The business partners, including a grocery store and a gift shop, welcome the influx of CU members.

Ka'u FCU also partners with larger CUs to originate home mortgages and to sell participation interests in member business loans. "At our size, we can't hold them all," Balsis reasoned.

On a larger scale, **Suncoast Schools FCU** in Tampa, Fla., has grown its membership by 9 percent - more than triple the national average. What attracts up to 30,000 new members a year, according to CEO Tom Dorety, are competitive services including free checking, check-cashing, payday loan alternatives and zero percent mortgages."

The mid-sized **Shreveport FCU** in Louisiana, has designed clubs for key demographic groups: "Kirby Club" for kids up to age 12; "Teen Club" for ages 13-19; "Club Prestige" for ages 50 and over; and a new "Club XCEL" to help

members from ages 20-35 become successful auto buyers, home buyers and small business owners. Each club offers special services and activities.

Teen Club offers a special "Teen Investment CD" with a parental guarantee, a credit card with a \$200 limit, and a trip to Dallas with CEO Helen Godfrey.

Paul Mercer, president of the **Ohio CU League** and chairman of the American Association of CU Leagues, described how several CUs are reaching "new Americans" - recent immigrants. Mercer suggested that all CUs base outreach programs on a "three-legged stool": 1) help new immi-



Honolulu - NCUA Board Member Debbie Matz meets with panelists who shared "Ideas to Help Members Build Wealth" at the PALS workshop. From left to right: Dennis Cutter, Bill Raker, Mary Cunningham, Board Member Matz, Pat Wagner, and facilitator Dennis Tanimoto, president of the Hawaii CU League.

Executive changes

Baylen to retire as Sarrazin and Lee assume new roles

NCUA Executive Director J. Leonard Skiles announced leadership changes that will occur at NCUA over the next several months.



James L. Baylen, Associate Regional Director of Operations (ARDO) in the Atlanta Region III office, will retire in April 2005 after a 30-year NCUA career

that began in 1975 as an examiner in Atlanta, Ga.



Marcia Sarrazin, Director of Supervision in the Office of Examination and Insurance, will replace Baylen as the Atlanta Region III ARDO after serving a brief stint as acting director of the renamed headquarters Office of Capital Markets and Planning beginning in early January.



Joy Lee, Associate Regional Director of Programs (ARDP) in the Alexandria Region II office, will replace Sarrazin as Director of Supervision in the Office of Examination and Insurance January 10.

PALS workshop

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grants assimilate while respecting their languages and cultures; 2) develop products that target their unique needs; and 3) provide financial education.

Helping members build wealth

To turn new members into loyal, life-long members, the second panel presented "Ideas to Help Members Build Wealth."

"For most people, creating wealth means creating homeownership," emphasized Dennis Cutter, CEO of **Numerica CU** in Spokane, Wash. Through "Homestart," a grant program originated by the Federal Home Loan Bank of Seattle, Numerica helps people with modest means become first-time homebuyers. The program provides financial education and matches every \$1 a member saves with \$3. Members build their savings for up to two years, then put it toward the down payment and closing costs on their first home.

USA FCU in San Diego offers similar opportunities through Individual Development Accounts (IDAs) with deposits matched by a social service agency as well as the credit union. And, for low-income consumers who can't afford the minimum deposits on CDs, USA FCU designed a "Payday Certificate" that can be opened with as little as \$50. These members can make incremental deposits with every paycheck and still earn dividends as high as conventional CDs.

"Credit unions ought to be paying better rates than for-profit competitors,"

USA CEO Mary Cunningham observed. "We have a high cost of funds by design, and we're growing about 19 percent."

New World FCU in Lafayette, Calif., teaches members to save small change that can add up to thousands of dollars a year. Working one-on-one with many of her 1,500 members, CEO Pat Wagner and her bilingual two-person staff "treat every member as an individual." For example, Wagner shows how each person could save over \$6,000 a year by controlling simple day-to-day expenses – such as making meals at home rather than buying fast food.

"We believe knowledge helps build wealth," agreed Bill Raker, CEO of **US FCU** in Burnsville, Minn. US FCU's newest education effort warns consumers about the high cost of tax refund anticipation loans (RALs). "To help tax filers

avoid outrageously expensive RALs, we offer the Volunteer Income Tax Assistance (VITA) program." VITA includes free tax preparation, free electronic tax filing and free refunds.

Since receiving a community charter from the NCUA Board in June, US FCU has been growing by 800 members a month. Raker suggested that CUs serving large communities target their outreach by approaching each demographic within those communities and getting involved with the community leaders. "We get involved in their lives; they partner with us, they trust us, and they look to us to help them," Raker said.

PowerPoint presentations from the workshop are on the PALS website. From www.ncua.gov, click PALS, then click "Workshop Presentations."



Oct. 29, Honolulu — Following the PALS workshop, Board Member Matz organized a meeting at the Hawaii HomeOwnership Center, which provides affordable mortgages and homeownership counseling to low-income homebuyers. It's one of more than 220 NeighborWorks organizations supported by the Neighborhood Reinvestment Corp., for which Matz serves as Vice Chair. Credit union representatives visiting the HomeOwnership Center along with Matz were Mary Dunn (third from left), CUNA's senior VP of Regulatory Advocacy; Eric Richard (third from right), CUNA's General Counsel; and Dennis Tanimoto (right).

Credit unions expand loan growth

The nation's federally insured credit unions showed consistent savings and equity growth and expanding loan growth through the first nine months of 2004, according to third quarter call report data.

Credit unions' net worth to total assets ratio was 10.87 percent at September 30, 2004, up from 10.71 percent at year-end 2003. Credit unions reported an annualized profitability of .94 percent of average assets, and the loan to share ratio expanded to 73.72 percent at September 30, the highest percentage figure since 2001. Furthermore, the delinquency ratio declined from 0.76 to 0.71 percent during the year.

"America's credit unions are in a solid asset and net worth capital position," said NCUA Chairman JoAnn Johnson. "Third quarter results are on target considering the steady economic rebound recognized by this data and national indicators. Clearly, with the economic upswing more members are diversifying savings and investments. The third quarter performance in lending growth is indicative of increased consumer confidence. Going forward, credit unions are well positioned by maintaining safe and sound diversification of portfolios."

The performance of major balance sheet categories and membership growth

between January and September follows:

- Assets increased 5.02 percent to \$640.8 billion;
- Loans increased 8.02 percent to \$406.3 billion;
- Shares increased 4.31 percent to \$551.1 billion;
- Net investments decreased 1.32 percent to \$200.8 billion;
- Net worth increased 6.52 percent to \$69.7 billion; and
- Membership grew 1.58 percent to 83.7 million members.

With two exceptions, the major saving and loan categories grew across the board during the first nine months of 2004. Representing over 31 percent of total loans, first mortgage real estate loans continued to outpace other types of lending gaining 8.09 percent to \$127.1 billion. Other types of mortgage loans grew 18.40 percent to \$59.3 billion. Representing more than 17 percent of total loans, new auto loans grew 10.1 percent to \$70.2 billion; and representing nearly 21 percent of total loans, used auto loans grew 4.26 percent to \$84.7 billion. The two exceptions to increased lending were unsecured credit cards loans, which declined 2.33 percent to \$21.2 billion and all other unsecured loans, which declined .25 percent to \$20.7 billion.

Reviewing the major share accounts, share drafts grew 5.91 percent to \$69.1 billion. Regular shares grew 4.89 percent to \$201.5 billion and other types of shares, such as IRA/KEOGH and certificates of deposit, grew 3.51 percent to \$280.5 billion.

Season's Greetings



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